

THE WEEK OF MONDAY, NOVEMBER 21, 1983

Goodbye Global Analytics: Stealth Stock Evaporates

"Because of the highly classified nature of stealth technology and stealth weapon systems, the company is not permitted to disclose which of such technologies and weapon systems it is participating in and the extent of such participation."

—Global Analytics Inc. Aug. 30, 1983 prospectus

By Mark Potts

Washington Post Staff Writer

Like the top-secret "stealth" technology that is its specialty, details about Global Analytics Inc. were all but invisible when the company issued an offer to sell stock to the public two months ago.

And then the stealth stock offering itself disappeared.

In a cryptic announcement, the two-year-old Georgetown company whose business is making tanks, airplanes and even ships invisible to radar, said it had dropped plans to sell stock to the public "for reasons of national security."

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Stock Offer From Stealth Tech Firm Disappears

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The stock issue was pulled off the market two weeks ago, more than two months after Global Analytics filed a prospectus with the Securities and Exchange Commission to sell 1.48 million shares of stock for as much as \$25 million.

Pentagon officials insist the Defense Department did not bury the Global Analytics stock. The decision was the company's own, a Pentagon spokesman said. "The Air Force in no way asked them to withdraw, nor did the Air Force insinuate in any way that they should withdraw."

Several defense industry executives and stock analysts said they can't remember a new stock offering ever being shot down for national security reasons.

Some suggested the company's announcement itself represents a bit of "stealth." Global Analytics might have dropped the issue because it feared investors weren't willing to pay the asking price of \$14 to \$17 a share for stock in a fledgling company whose business was cloaked in national security.

Global Analytics' executives say they decided the company should remain privately owned after discussions with the Defense Department about the sensitivity of the company's work.

Apparently there were fears that the disclosure requirements of public companies would cause Global Analytics to reveal too many details of the technology that is supposed to prevent bombers, missiles and other military aircraft and vehicles from being detected by enemy radar.

Technical details of how "stealth" works are classified, and the very existence of "stealth" technology was not made public until three years ago.

Industry observers speculate that Pentagon and company officials feared the Russians would be able to glean tidbits about American defense technology from Global Analytics documents that would have been required by the Securities and Exchange Commission, such as the form 10-K detailed annual financial report.

A Pentagon source said increasing incidents of espionage have made the Defense Department sensitive about the amount of information being released by defense contractors. Government officials fear that by disclosing that they are doing classified work, public companies "further highlight the potential for becoming targets for espionage," the source said.

Industry analysts and Pentagon officials say the Defense Department usually is informed in advance of stock offerings, reports to the SEC or announcements involving defense-related companies. The firms voluntarily submit the information to security review, sources said.

But an Air Force spokesman insisted

Global Analytics did not ask for clearance on the prospectus before it was issued last August. "GAI did not come to DOD with security review on that prospectus," the spokesman said. He added that Global Analytics may not have asked for the review because it may not be doing work directly on a defense contract. The company could be working as a subcontractor to another defense contractor, or doing the project on a speculative basis.

Defense-industry analysts, however, say they are surprised that the company would have gone ahead with its plans to offer stock to the public without giving the Pentagon a preliminary look at the prospectus, particularly since most of the principal officers of the company are former Pentagon research and development officials.

"I can't believe for a second that the people who were involved would be naive enough to do anything that would jeopardize themselves in that fashion," says one analyst.

In any case, it appears that somebody had second thoughts.

Company executives won't say much about what happened, limiting their comments to information in the company's press release and insisting that there's nothing unusual about the decision to drop the stock offering.

"We just had some discussions and chose to withdraw," says Chairman Alan D. Simon, a former Pentagon official. Although the company does not rule out a public offering some time in the future, Simon says the company will continue for now to rely on private financing. "We're just going to stay private," Simon says.

Simon also dismisses questions about why the company would issue a prospectus and then later decide against the stock offering. "The timing is not a big issue to me," he says.

Global Analytics was a mystery even before its stock offering disappeared.

"They were invisible," says longtime aerospace industry analyst John Simon, of Amdec Securities.

"They were real people, but nobody knew what they did," Simon said.

Analysts say they would go to underwriters' presentations of new issues that included Global Analytics and come away knowing little more about the company than they had before. John Simon says he was able to find out "zip" about Global Analytics.

The prospectus wasn't much help. Forty-two pages long, superficially resembling scores of other offerings for similar high-tech start-up companies, it nevertheless provided little substantial information beyond some sketchy financial background and a history of the company and its principals. A fold-out four-color cover showing laboratory scenes and computer-generated graphics could have come from just about any high-tech company.

"There's almost nothing that you could learn from the prospectus," says Howard Mager, an analyst at DLJ Securities.

What the prospectus did say was that the company specialized in "low observable technology" (LOT), better known as "stealth" technology. The stealth program, the existence of which was first leaked by the Carter administration in 1980, is believed to use radar-deflecting or absorbing materials to make aircraft, missiles and other vehicles virtually invisible to radar and other electronic detection devices.

Global Analytics wouldn't even offer its own definition of the technology. "According

to published reports," the prospectus said, "the stealth features under consideration for these proposed weapon systems include: the elimination of angular parts; the positioning of engines so that the turbine blades will be hidden from radar; the use of composite materials such as graphite, ceramics, and fiberglass and fiber-reinforced airframe skins instead of metal; the use of sound-absorbing materials in engine housings, redesigned turbine blades and new engines designed to reduce aircraft noise; and the use of shielded engine exhaust systems to reduce heat emissions."

And where other companies boast in their offering statements about the technological advantages that would make them attractive to potential investors, Global Analytics' prospectus offered little more than a disclaimer:

"Because of the highly classified nature of stealth technology and stealth weapon systems, the company is not permitted to disclose which of such technologies and weapons systems it is participating in and the extent of such participation."

About all that Global Analytics' prospectus would disclose about the company's work was that it produces computer-generated models and analyses of the "radar signatures" of weapons systems, and that it designs and builds stealth equipment to minimize those "signatures," using non-metallic composite materials. "The company utilizes computer-aided design methods and composite laminate mechanics (which involve the layering of materials), to develop and produce structures, such as wings, fins and canopies, which have low observable features (deflect rather than reflect radar)," the prospectus said.

The prospectus also let on that Global Analytics had "recently begun low-volume production of structural components and electronic subsystems," and that it had recently received a \$26 million subcontract to

build stealth equipment for two prototypes of a weapons system.

But it did not offer any other details of this or other contracts, nor did it identify the two aerospace companies that had provided 66 percent of the company's \$10.5 million in revenues for the 11-month period ending last July 31. "The company is precluded by national security constraints from disclosing the identity of its principal customers," the prospectus said.

Global Analytics' top-level security clearances gave it a competitive advantage over other companies interested in winning stealth contracts, the company claimed. "It would take such competitors a significant amount of time to achieve the national security status currently held by the company," the prospectus noted.

The Global Analytics executives listed in the document are all alumni of various Defense Department "skunk works" that conduct super-secret advanced weapons research.

Company Chairman Simon is identified as former director of Air Warfare in the Office of Defense Research and Engineering from 1969 to 1973. For 10 years after that, he was self-employed as a consultant "primarily in the aerospace and electronics fields."

President Kenneth Perko was chief of the air vehicle technology division at the Defense Advanced Research Projects Agency.

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cy (DARPA) of the Department of Defense from 1974 to 1979, when he, too, became a consultant.

For several years, Simon served as chairman of Alpha Group Consultants Ltd., a company owned by Perko. Besides being president of Alpha Group, Perko simultaneously was a vice president of Allan D. Simon Associated Ltd., which Simon owned.

Vice President and General Manager Robert J. Whalen had been president of Martin Marietta Corp.'s Orlando, Fla., aerospace division, a major maker of missiles. Other officers came from DARPA, various other defense department research facilities and from a smattering of big defense contractors. And one of the directors is George M. Bunker, former chairman of Bunker Ramo Corp. and Martin Marietta.

Simon, 50, and Perko, 42, each own 42.3 percent of Global Analytics (3.9 million shares apiece) and would have become overnight millionaires if the stock offering had gone on as scheduled.

Each of the founders planned to sell 240,000 shares. At the asking price of \$14 to \$17 a share, Perko and Simon would have taken home between \$3.3 and \$4 million each.

Given the background of the company's management, some analysts say they would be surprised if Global Analytics was not in touch with the Pentagon all along about the advisability of the stock offering. Because of that, defense stock analyst Mager suggests, the purported fears about breaching national security may have been "a convenient excuse because the deal couldn't be done in this market."

He and some other analysts speculate that the company's decision to pull back may have come after a testing of the waters for new stock issues. They suggest that po-



Designed by Carol Porter—The Washington Post

tential investors might have been turned off by the secrecy surrounding the company.

But other analysts familiar with the available knowledge about the company doubt that was the case. The market for new stocks, though less attractive than it was a few months ago, still is ripe for companies with technology as hot as Global Analytics' stealth know-how.

It is not known where Global Analytics will now turn to raise the funds it said in

the prospectus it needed to purchase capital equipment for the expansion of its California production facilities and for working capital.

One option might be to take on one or more corporate partners. Prior to the issuance of the prospectus, Global Analytics raised \$7.5 million by selling about 5 percent of its stock to a subsidiary of Aluminum Co. of America (Alcoa). The company itself sold 300,000 shares of stock to the

Alcoa unit and another 164,000 shares were purchased from the personal holdings of Simon and Perko.

As part of the transaction, the two companies entered into a series of joint arrangements to develop stealth technology. The company might raise additional funds through similar deals, or it could use the venture-capital or private-placement markets to raise private funds with a reduced risk of compromising defense secrets.

National Security Usually Wins in Conflicts Over Disclosure

How to reconcile national security with federal securities laws is a question faced by many Washington public companies that do top-secret government work.

While Global Analytics Inc.'s withdrawal of a stock offering "for reasons of national security" appears to be the most extreme result of the occasional clash between public disclosure and national security, officials of other public companies say they occasionally face similar problems.

When that conflict arises, national security always wins, they say.

"Any time that the contracts themselves are classified, you can't talk about them," says Earle Williams, chairman of BDM International Inc. of McLean, which includes a variety of top-secret government work in its portfolio of professional services contracts.

But Williams says the challenge posed by the Securities and Exchange Commission's financial-data reporting requirements "is just actually part of the overall security problem."

The paperwork required by the SEC presents several opportunities for information about top-secret contracts to seep out. The SEC requires that information "material" to a company's performance,

such as income from major lines of business, be included in public documents such as annual reports, 10-K financial reports and stock prospectuses. A common rule of thumb is that any business accounting for 5 percent or more of a company's revenues should be disclosed.

But the SEC also makes allowances for top-secret work, allowing some information that would affect national security to be omitted from company documents. SEC regulations allow companies to stand behind this national security shield if they explain confidentially to the commission their reason for requesting the protection.

Companies can finesse the reporting requirements, experts say, by emphasizing non-secret work and glossing over classified contracts with generalities and national-security disclaimers. Some companies say very bluntly in documents or in presentations to stock analysts that they can't provide any information about parts of their business because of national-security constraints.

"You can usually lump [financial results from classified work] with the others and present them and not have any prob-

lem," says Coleman Raphael, chairman of Atlantic Research Corp., the Alexandria-based company that makes rockets and electronic equipment, and has its share of top-secret government contracts.

Be too secretive, however, and the SEC might come back asking for the disclosure of more information. Corporate lawyers thus must walk a tightrope between what the SEC wants and what the Pentagon will let them say—and they always err on the side of the Pentagon, experts say.

Williams says the possible conflicts between the Pentagon and SEC should not be the responsibility of companies to work out. "It's actually a government problem to work out the problems that exist," he says.

Still, some companies, like Global Analytics, get caught in the crossfire. Global Analytics is apparently the first company ever to retreat back into the private domain rather than try to reconcile the two sides of the law.

Part of Global Analytics' problem is that it doesn't have any "clean" operations behind which it can hide its secret defense work; stealth technology is its only line of work.

Other public companies have had enough non-secret business they can dis-

cuss to give investors some idea of what they do without breaching security on their top-secret projects.

Some stock analysts, though, boast that they have been able to deduce some information about the size of a company's involvement in top-secret projects by subtracting from the company's government revenues the firm's non-secret contract work. The difference, theoretically, is the top-secret business. One analyst, using that process, claims to have figured out that Northrop Corp. is doing about \$600 million worth of development on "stealth" projects this year.

Because the SEC reporting laws are designed to give investors as much information as possible about a publicly held company, a company that holds back too much in a public filing could raise suspicions in the investment community, experts say, and resulting wariness on the part of investors might hurt the price of the company's stock.

"The extent to which analysts and the public are uncomfortable with how much you tell them, I guess, is reflected in the price of the stock," Williams says.

—Mark Potts